

ORIGINAL

MEMORANDUM



0000171877

TO: Docket Control

FROM: Thomas M. Broderick
Director
Utilities Division

DATE: July 26, 2016

RE: STAFF REPORT FOR MONTEZUMA RIMROCK WATER COMPANY, LLC'S APPLICATION TO REOPEN DECISION NO. 74504 PURSUANT TO A.R.S. § 40-252 FOR PURPOSES OF AMENDING CERTAIN CONDITIONS (DOCKET NOS. W-04254A-12-0204, W-04254A-12-0205, W-04254A-12-0206, W-04254A-12-0207, W-04254A-11-0323, W-04254A-08-0361 AND W-04254A-08-0362)

Attached is the Staff Report for Montezuma Rimrock Water Company, LLC's application to reopen Decision No. 74504, pursuant to A.R.S. §40-252 for purposes of amending certain conditions. Staff recommends approval of the removal or alteration of certain conditions and authorization to begin collecting a temporary one year surcharge as discussed herein.

TMB:DWC:nr/CHH

Originator: Darron W. Carlson

Arizona Corporation Commission

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JUL 26 2016

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Docket No. W-04254A-12-0204 et al

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**STAFF REPORT
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ARIZONA CORPORATION COMMISSION**

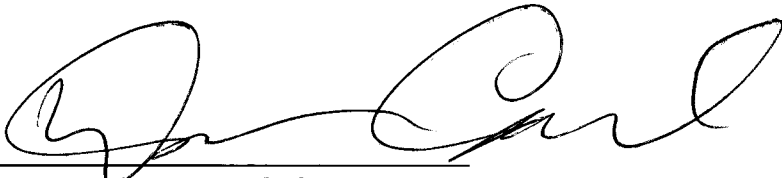
**MONTEZUMA RIMROCK WATER COMPANY, LLC
DOCKET NO. W-04254A-12-0204 ET AL**

**APPLICATION TO
REOPEN DECISION NO. 74504 PURSUANT TO A.R.S. § 40-252
FOR PURPOSES OF AMENDING CERTAIN CONDITIONS**

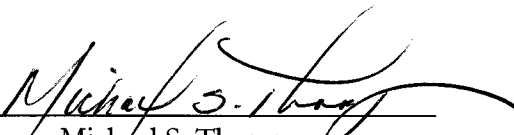
JULY 26, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Montezuma Rimrock Water Company, LLC, Docket No. W-04254A-12-0204 et al, was the responsibility of the Staff members listed below. Darron W. Carlson was responsible for the review and analysis of the Company's application and the financial considerations. Michael S. Thompson was responsible for the engineering and technical analysis.



Darron W. Carlson
Public Utilities Analyst Manager



Michael S. Thompson
Utilities Engineer

EXECUTIVE SUMMARY
MONTEZUMA RIMROCK WATER COMPANY, LLC
DOCKET NO. W-04254A-12-0204 ET AL

Montezuma Rimrock Water Company, LLC ("Montezuma" or "Company") is a Class E small water utility. It has approximately 223 customers. The system services a community located approximately ten miles northeast of Camp Verde, Yavapai County, Arizona.

On March 22, 2016, Montezuma filed two separate requests seeking, per Arizona Revised Statutes ("ARS") §40-252, to amend Decision No. 74504 (May 30, 2014). These requests were considered by the Commission in a Staff Meeting on June 14, 2016, and the motion was granted to reopen Decision No. 74504 for purposes of considering further amendments to the Order that would grant the Company's requested amendments.

Montezuma requests that the Commission remove certain restrictions regarding the financing and associated surcharge, along with including more identified costs to purchase and install an 8,000 gallon hydro-pneumatic pressure tank. Staff identified and estimated the additional costs. Staff also recommends the removal of certain restrictions, and the implementation of an associated direct surcharge.

Montezuma also requests that the Commission allow it to obtain alternative financing other than the previously approved Water Infrastructure Finance Authority of Arizona ("WIFA") loan. WIFA does not wish to approve any financing while there is a current investigation of the Company and its owner by the Arizona Attorney General's Office, which was requested in Decision No. 74504. Staff recommends approval of the \$108,000 loan from the Rural Community Assistance Corporation ("RCAC"), along with authorizing an associated RCAC loan surcharge.

Staff Recommendations

Staff recommends:

- The removal of ordering paragraphs in Decision No. 74504, beginning at line 23 of page 162 through line 22 of page 164;
- Approval of an additional \$6,000 in engineering and other costs for the purchase and installation of an 8,000 gallon hydro-pneumatic pressure tank. Along with what was approved in Decision No. 74504, this brings the total approved cost to \$24,541;
- Authorization to begin implementation of a direct surcharge to cover the approximate \$24,541 cost for the 8,000 gallon hydro-pneumatic pressure tank, with the next regularly scheduled billing after the effective date of this Decision. This direct surcharge shall run for twelve consecutive months and then automatically expire. The specific rates are reflected on attached Schedule DWC-1 and indicate the 5/8-inch meter customer rate as \$8.78 per month and the 3/4-inch meter customer rate as \$13.17 per month;

- That Montezuma Rimrock Water Company, LLC be ordered to establish a separate interest-bearing account to deposit the direct surcharge funds into and that the only withdrawals allowed be in payment of the specific cost items approved for the hydro-pneumatic tank;
- That Montezuma Rimrock Water Company, LLC, if it has collected more funds than necessary to complete the hydro-pneumatic storage tank project, be ordered to credit the amount of the overage in its next monthly billing, with each customer receiving an equal portion of the overage amount, and the Company shall file a notice with the Commission showing that such credits have been made;
- That with regard to Montezuma Rimrock Water Company, LLC's request for approval of financing in the form of a loan agreement with the Rural Community Assistance Corporation ("RCAC"), that:
 1. Montezuma is authorized to incur a 10-year amortizing loan in an amount not to exceed \$108,000 pursuant to a loan agreement with RCAC, at an interest rate not to exceed 8.0 percent per annum, for the purpose of purchasing and installing four 20,000 gallon storage tanks;
 2. Montezuma shall, within 30 days after executing the RCAC loan, file with the Commission's Docket Control, as a compliance item in this docket, a true and complete copy of all RCAC loan documents executed;
 3. Montezuma shall, within 30 days after executing any financing transaction authorized herein, file with the Commission's Docket Control, as a compliance item in this docket, a notice confirming that the execution has occurred and a certification by an authorized Montezuma representative that the terms of the financing fully comply with the authorizations granted;
 4. Any unused authorization to incur debt authorized herein shall expire on December 31, 2016;
 5. Montezuma is authorized, subject to the requirement for a surcharge implementation application to be filed and a surcharge amount and effective date to be approved by the Commission, to charge an RCAC loan surcharge to meet its RCAC loan debt service and associated loan obligation;
 6. After having filed in this docket a true and complete copy of all RCAC loan documents executed, Montezuma shall file in this docket an application requesting permission to implement the associated RCAC loan surcharge;
 7. Staff shall, within 30 days after Montezuma files an application requesting permission to implement the surcharge, calculate the appropriate RCAC loan surcharge, based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of loan closing, to

provide the cash flow adopted in this proceeding, and prepare and file a recommended order for Commission consideration;

8. Montezuma is authorized, in connection with the RCAC loan approved herein, to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and Arizona Administrative Code ("A.A.C.") R18-15-104;
 9. Montezuma is authorized to engage in any transaction and to execute any documents necessary to effectuate the authorizations as to the RCAC loan approved herein;
 10. Such authority, is expressly contingent upon Montezuma's use of the proceeds from the RCAC loan solely for the purposes set forth in its April 12, 2013, application in this matter;
 11. Montezuma shall segregate all funds collected under the RCAC loan surcharge in a separate interest-bearing account and may use those funds only for the purpose of making the debt service payments for the actual RCAC loan debt service (principal and interest);
 12. The RCAC loan surcharge will expire automatically upon the end of the term for the RCAC loan, unless the RCAC loan surcharge is first reduced or otherwise modified by Commission Order, and
 13. If, when the RCAC loan surcharge ends, Montezuma has collected more funds through the RCAC loan surcharge than were needed to make the RCAC loan debt service payments, Montezuma shall credit the amount of the overage in its next monthly billing, with each customer receiving an equal portion of the overage amount, and Montezuma shall file a notice with the Commission showing that such credits have been made.
- That Montezuma Rimrock Water Company, LLC be ordered to recognize the ratepayer supplied funding associated with the principal payment portion of these surcharges as non-investor supplied Contributions in Aid of Construction in future rate cases so that depreciation expense and rate of return associated with the assets being paid for by ratepayers through these surcharges are not passed through to ratepayers a second time.
 - Staff has reviewed Montezuma's request and believes, from an engineering perspective, that it is reasonable to permit Montezuma to implement and begin collecting the surcharge for the purchase and installation of the 8,000 gallon hydro-pneumatic pressure tank.
 - Staff further recommends that Montezuma, as a compliance item in this docket, file the Approval of Construction ("AOC") upon issuance from Arizona Department of Environmental Quality ("ADEQ").

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SCHEDULES

DIRECT SURCHARGE CALCULATION	Schedule DWC-1
RCAC LOAN SURCHARGE CALCULATION	Schedule DWC-2
RCAC LOAN AMORTIZATION SCHEDULE.....	Schedule DWC-3

Attachment

Engineering Memorandum	Attachment A
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SUMMARY OF FILING

On March 22, 2016, two separate requests were filed with the Arizona Corporation Commission ("Commission") by Montezuma Rimrock Water Company, LLC ("Montezuma" or "Company") seeking, per Arizona Revised Statutes ("ARS") §40-252, to amend Decision No. 74504, date May 30, 2014. These requests were considered by the Commission in a Staff Meeting on June 14, 2016, and the motion was granted to reopen Decision No. 74504, for purposes of considering further amendments to the Order that would grant the Company's requested amendments. The Commission then assigned Staff to review the requests and produce a Staff Report and Recommended Opinion and Order ("ROO") with Staff's recommendations for consideration at an Open Meeting.

One of the requests seeks to remove certain restrictions regarding the financing and associated surcharge along with including more identified costs to purchase and install an 8,000 gallon hydro-pneumatic pressure tank. The amounts approved in Decision No. 74504, were \$15,000 for the purchase of the tank and \$3,541 for the installation of the tank. Montezuma now claims in its request that it has no funds to start this project and that no provision was made for the engineering, Approval to Construct ("ATC"), and Approval of Construction ("AOC") costs. The ATC and AOC are requirements of the Arizona Department of Environmental Quality (ADEQ").

The other request seeks to alter the approved Water Infrastructure Finance Authority of Arizona ("WIFA") loan to allow Montezuma to seek an alternate financing source. This approved loan is for the purpose of purchasing and installing four 20,000 gallon storage tanks at a cost of \$108,000. Due to an on-going investigation of Montezuma and its owner by the Arizona Attorney General's Office, which was requested in Decision No. 74504, WIFA does not wish to fund this loan until the investigation is completed. It is currently unknown how long it will take for this investigation to be completed.

COMPANY BACKGROUND

Montezuma is a Class E small water utility. It has approximately 223 customers. The system services a community located approximately ten miles northeast of Camp Verde, Yavapai County, Arizona. Ms. Patricia Olsen is both the manager and the owner of Montezuma.

The filings associated with Decision No. 74504, Docket No. W-04254A-12-0204 et al include four financing approval applications, two rate increase applications, and one formal complaint. For a clear understanding of the numerous issues, operational and otherwise that affect this utility, Staff would refer to the 169 page Decision No. 74504.

COMPLIANCE

A check of the Commission's Compliance database indicates that the only open compliance items for Montezuma relate to the unfilled aspects of Decision No. 74504, and those will be superseded and replaced by the new compliance requirements Staff recommends in this Staff Report. Montezuma has no delinquent compliance items pending.

ENGINEERING ANALYSIS

The Staff Engineer has determined that the previously unrecognized costs for engineering and AOC costs for the installation of the 8,000 gallon hydro-pneumatic pressure tank will be approximately \$6,000.

For a complete description of the engineering and technical issues, please review the attached Engineering Memorandum.

DIRECT SURCHARGE REGARDING THE 8,000 GALLON HYDRO-PNEUMATIC PRESSURE TANK

Decision No. 74504, required the Company to complete the installation of the tank and file the AOC with the Commission prior to collecting any surcharge to pay the costs. Unfortunately, the Company states that it has no funds available to even start the project. Under these circumstances, Staff recommends that the direct surcharge be authorized to begin with the next regularly scheduled Montezuma billing after the effective date of the decision resulting from this Staff Report and proposed order. The direct surcharge shall run for twelve consecutive months and then automatically expire. This will allow the Company to collect the full estimated cost of the project in one year:

Cost of tank	\$15,000
Cost of installation	3,541
Estimated cost of Engineering, etc.	<u>6,000</u>
Total:	<u>\$24,541</u>

The resulting direct surcharge for the 5/8-inch meter residential customer is \$8.78 per month. Comparing this to the last usage information available in the most recent Montezuma rate case (test year 2011) indicates that this surcharge will increase the typical 5/8-inch meter residential customer's bill with median usage of 4,112 gallons per month from \$40.43 to \$49.21, a 21.7 percent increase for one year. See Schedule DWC-1.

To ensure proper accounting, Staff recommends that Montezuma be ordered to establish a separate interest-bearing account to deposit the direct surcharge funds into and that the only withdrawals allowed be in payment of the cost items reflected above. After the tank project is completed Montezuma should be required to file information with the Commission with a full accounting of the funds received and disbursed for the project. If, at the conclusion of the hydro-pneumatic pressure tank's surcharge collection period, Montezuma has collected more funds through the surcharge than were needed to complete the project, Montezuma shall credit the amount of the overage in its next monthly billing, with each customer receiving an equal portion of the overage amount, and Montezuma shall file a notice with the Commission showing that such credits have been made.

RURAL COMMUNITY ASSISTANCE CORPORATION ("RCAC") LOAN

Decision No. 74504, authorized a \$108,000 loan from WIFA to purchase and install four 20,000 gallon storage tanks. As noted previously, WIFA is not currently willing to fund the loan. As an alternative, Montezuma has located another lender to replace WIFA. RCAC has offered to fund the loan but at different terms than WIFA. WIFA's terms were a 20-year loan at a subsidized rate of approximately 4.4 percent. RCAC's terms are a 10-year loan at an estimated maximum rate of 8.0 percent. Staff notes that while there is a large difference in the interest rates, this is overcome by the shorter term being utilized in the RCAC loan. The total cost of the WIFA loan is estimated at \$162,513 (principal \$108,000 and interest \$54,513). The total cost of the RCAC loan is estimated at \$157,241 (principal \$108,000 and interest \$49,241). Staff notes that these are estimates based on the latest information available. Staff recommends approval of the RCAC loan to replace the previously approved WIFA loan. See Schedule DWC-3.

Staff also notes that a tentative WIFA loan surcharge had been approved but not closed on or implemented. Staff recommends that a replacement RCAC loan surcharge be approved. As is normal, this surcharge would not begin until after the RCAC loan was closed, the terms were set, and the latest customer count confirmed. Staff will provide an estimate of what the surcharge would be, based on the maximum terms mentioned above. Montezuma would be required to file with the Commission, confirmation of the loan closing and the appropriate details so that Staff can calculate the correct amounts for the surcharge and submit them to the Commission for its approval.

The estimated RCAC loan surcharge for the 5/8-inch meter residential customer is \$5.62 per month. The RCAC loan surcharge shall run for 10 years (120 months) and then automatically terminate. This will allow full funding of the loan for the entire term of the loan. Comparing this information to the last usage information available in the most recent Montezuma rate case (test year 2011) indicates that this surcharge will increase the typical 5/8-inch meter residential customer's bill with median usage of 4,112 gallons per month from \$40.43 to \$46.05, a 13.9 percent increase for ten years. See Schedule DWC-2.

Again, to ensure proper accounting, Staff recommends that when implementation of the RCAC loan surcharge is authorized, Montezuma be ordered to establish a separate interest-bearing account to deposit the RCAC loan surcharge funds into and that the only withdrawals allowed be in payment to RCAC to repay the loan. If, when the RCAC loan surcharge ends, Montezuma has collected more funds through the RCAC loan surcharge than were needed to make the RCAC loan debt service payments, Montezuma shall credit the amount of the overage in its next monthly billing, with each customer receiving an equal portion of the overage amount, and Montezuma shall file a notice with the Commission showing that such credits have been made.

For the short period of time (less than one year) when both of the above surcharges may be in effect at the same time, the combined increase to the typical 5/8-inch meter residential customer's bill with median usage of 4,112 gallons per month from \$40.43 to \$54.83, a combined 35.6 percent increase for that short period.

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION ("CIAC")

Ratepayers are being asked to directly fully fund both of the tank projects previously mentioned instead of having these project investments included in rate base and in the Company's base rate cost of service. In such situations, it is important to assure that ratepayers are not subsequently required to fund these investments a second time in a subsequent rate case. Therefore, the Commission should require the Company to recognize the principal portion of the surcharge recoveries as non-investor supplied Contributions in Aid of Construction ("CIAC") and that such investment levels funded by these principal payments will not be includable in rate base nor will depreciation expense on these principal funded investments be includable in the Company's annual cost of providing service in future rate proceedings.

It is appropriate for the Commission to order CIAC accounting which would provide the establishment of account balances that would offset plant investments by the CIAC (for rate base purposes) and the depreciation expense on these assets would be offset by CIAC amortization.

Staff Recommendations

Staff recommends:

- The removal of ordering paragraphs in Decision No. 74504, beginning at line 23 of page 162 through line 22 of page 164;
- Approval of an additional \$6,000 in engineering and other costs for the purchase and installation of an 8,000 gallon hydro-pneumatic pressure tank. Along with what was approved in Decision No. 74504, this brings the total approved cost to \$24,541;
- Authorization to begin implementation of a direct surcharge to cover the approximate \$24,541 cost for the 8,000 gallon hydro-pneumatic pressure tank, with the next regularly scheduled billing after the effective date of this Decision. This direct surcharge shall run for twelve consecutive months and then automatically expire. The specific rates are reflected on attached Schedule DWC-1 and indicate the 5/8-inch meter customer rate as \$8.78 per month and the 3/4-inch meter customer rate as \$13.17 per month;
- That Montezuma Rimrock Water Company, LLC be ordered to establish a separate interest-bearing account to deposit the direct surcharge funds into and that the only withdrawals allowed be in payment of the specific cost items approved for the hydro-pneumatic tank;
- That Montezuma Rimrock Water Company, LLC, if it has collected more funds than necessary to complete the hydro-pneumatic storage tank project, be ordered to credit the amount of the overage in its next monthly billing, with each customer receiving an

equal portion of the overage amount, and the Company shall file a notice with the Commission showing that such credits have been made;

- That with regard to Montezuma Rimrock Water Company, LLC's request for approval of financing in the form of a loan agreement with the Rural Community Assistance Corporation ("RCAC"), that:
 1. Montezuma is authorized to incur a 10-year amortizing loan in an amount not to exceed \$108,000 pursuant to a loan agreement with RCAC, at an interest rate not to exceed 8.0 percent per annum, for the purpose of purchasing and installing four 20,000 gallon storage tanks;
 2. Montezuma shall, within 30 days after executing the RCAC loan, file with the Commission's Docket Control, as a compliance item in this docket, a true and complete copy of all RCAC loan documents executed;
 3. Montezuma shall, within 30 days after executing any financing transaction authorized herein, file with the Commission's Docket Control, as a compliance item in this docket, a notice confirming that the execution has occurred and a certification by an authorized Montezuma representative that the terms of the financing fully comply with the authorizations granted;
 4. Any unused authorization to incur debt authorized herein shall expire on December 31, 2016;
 5. Montezuma is authorized, subject to the requirement for a surcharge implementation application to be filed and a surcharge amount and effective date to be approved by the Commission, to charge an RCAC loan surcharge to meet its RCAC loan debt service and associated loan obligation;
 6. After having filed in this docket a true and complete copy of all RCAC loan documents executed, Montezuma shall file in this docket and application requesting permission to implement the associated RCAC loan surcharge;
 7. Staff shall, within 30 days after Montezuma files an application requesting permission to implement the surcharge, calculate the appropriate RCAC loan surcharge, based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of loan closing, to provide the cash flow adopted in this proceeding, and prepare and file a recommended order for Commission consideration;
 8. Montezuma is authorized, in connection with the RCAC loan approved herein, to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and A.A.C. R18-15-104;

9. Montezuma is authorized to engage in any transaction and to execute any documents necessary to effectuate the authorizations as to the RCAC loan approved herein;
 10. Such authority, is expressly contingent upon Montezuma's use of the proceeds from the RCAC loan solely for the purposes set forth in its April 12, 2013, application in this matter;
 11. Montezuma shall segregate all funds collected under the RCAC loan surcharge in a separate interest-bearing account and may use those funds only for the purpose of making the debt service payments for the actual RCAC loan debt service (principal and interest);
 12. The RCAC loan surcharge will expire automatically upon the end of the term for the RCAC loan, unless the RCAC loan surcharge is first reduced or otherwise modified by Commission Order, and
 13. If, when the RCAC loan surcharge ends, Montezuma has collected more funds through the RCAC loan surcharge than were needed to make the RCAC loan debt service payments, Montezuma shall credit the amount of the overage in its next monthly billing, with each customer receiving an equal portion of the overage amount, and Montezuma shall file a notice with the Commission showing that such credits have been made.
- That Montezuma Rimrock Water Company, LLC be ordered to recognize the ratepayer supplied funding associated with the principal payment portion of these surcharges as non-investor supplied CIAC in future rate cases so that depreciation expense and rate of return associated with the assets being paid for by ratepayers through these surcharges are not passed through to ratepayers a second time.
 - Staff has reviewed Montezuma's request and believes, from an engineering perspective, that it is reasonable to permit Montezuma to implement and begin collecting the surcharge for the purchase and installation of the 8,000 gallon hydro-pneumatic pressure tank.
 - Staff further recommends that Montezuma, as a compliance item in this docket, file the AOC upon issuance from ADEQ.

DIRECT SURCHARGE CALCULATION

Loan Amount: **\$24,541**
Term (In Years): **1.0**
Interest & Fee Rate: **0.000%**

Step 1 - Find the Principal and Interest Components of the Annual Surcharge Revenue

\$24,541.00 Principal (From Loan Amortization Schedule)
\$0.00 Plus: Interest (From Loan Amortization Schedule)
\$24,541.00 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

0 From Testimony Staff Report, Schedule CSB-1, Page 3

Step 3 - Find the Incremental Income Tax Factor

0.00000 minus 1 = -1.00000

Step 4 - Find the Annual Income Tax Component of Surcharge Related To Principle

0.00000 Incremental Income Tax Factor (From Step 3)
\$24,541.00 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)
\$0.00 Annual Income Tax Component Related to the Principle

Step 5 - Find the Annual Income Tax Component of Surcharge Related to Depreciation Expense

0.00000 Incremental Income Tax Factor (From Step 3)
\$0.00 Depreciation Expense on WIFA Loan Funded Plant (\$210,891 x 2.00%)
\$0.00 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Net Annual Income Tax Component of Surcharge

\$0.00 Annual Income Tax Component Related to the Principle (From Step 4)
\$0.00 Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)
\$0.00 Net Annual Income Tax Component of Surcharge Revenue

Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$24,541.00 Annual Interest and Principal Payments on the Loan (From Step 1)
0% Multiplied by: One-fifth of Annual Principal and Interest Payment
\$0.00 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$0.00 Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 6)
\$24,541.00 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
\$0.00 Plus: Annual Reserve Fund Deposit (From Step 7)
\$24,541.00 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Col A	Col B		Col C		Col D		Col E
Meter Size	NARUC Multiplier		Number of Customers		Number of Months in Year		Equivalent Bills Col B x C X D
5/8"x 3/4" Meter	1	x	203	x	12	=	2,436
3/4" Meter	1.5	x	20	x	12	=	360
1" Meter	2.5	x	0	x	12	=	-
1 1/2" Meter	5	x	0	x	12	=	-
2" Meter	8	x	0	x	12	=	-
3" Meter	15	x	0	x	12	=	-
4" Meter	25	x	0	x	12	=	-
6" Meter	50	x	0	x	12	=	-
			223				2,796

Step 10 - Find the Monthly Surcharge for the 5/8-Inch Meter Size Customers

\$24,541.00 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8)
2,796 Divided by: Total Number of Equivalent Bills (From Step 9)
\$8.78 Monthly Surcharge for 1-Inch Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Col A	Col B		Col C		Col D
Meter Size	NARUC Multiplier		1-Inch Customers' Surcharge		Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x	\$8.78	=	\$8.78
3/4" Meter	1.5	x	\$8.78	=	\$13.17
1" Meter	2.5	x	\$8.78	=	\$21.94
1 1/2" Meter	5	x	\$8.78	=	\$43.89
2" Meter	8	x	\$8.78	=	\$70.22
3" Meter	15	x	\$8.78	=	\$131.66
4" Meter	25	x	\$8.78	=	\$219.43
6" Meter	50	x	\$8.78	=	\$438.86

Step 12 - Recalculation of Annual Surcharge Revenue

Col A	Col B		Col C		Col D		Col E
Meter Size	Number of Customers		Number of Months in Year		Surcharge by Meter Size		Annual Surcharge Rev Col B x C X D
5/8"x 3/4" Meter	203	x	12	x	\$8.78	=	\$21,381.21
3/4" Meter	20	x	12	x	\$13.17	=	\$3,159.79
1" Meter	0	x	12	x	\$21.94	=	\$0.00
1 1/2" Meter	0	x	12	x	\$43.89	=	\$0.00
2" Meter	0	x	12	x	\$70.22	=	\$0.00
3" Meter	0	x	12	x	\$131.66	=	\$0.00
4" Meter	0	x	0	x	\$219.43	=	\$0.00
6" Meter	0	x	0	x	\$438.86	=	\$0.00
	223				\$947.94		\$24,541.00 (From Step 8)

RCAC LOAN SURCHARGE CALCULATION

Loan Amount: **\$108,000**
Term (In Years): **10.0**
RCAC Interest & Fee Rate **8.000%**

Step 1 - Find the Principal and Interest Components of the Annual Surcharge Revenue

\$7,349.66 Principal (From Loan Amortization Schedule)
\$8,374.39 Plus: Interest (From Loan Amortization Schedule)
\$15,724.06 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

0 From Testimony Staff Report, Schedule CSB-1, Page 3

Step 3 - Find the Incremental Income Tax Factor

0.00000 minus 1 = -1.00000

Step 4 - Find the Annual Income Tax Component of Surcharge Related To Principle

0.00000 Incremental Income Tax Factor (From Step 3)
\$7,349.66 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)
\$0.00 Annual Income Tax Component Related to the Principle

Step 5 - Find the Annual Income Tax Component of Surcharge Related to Depreciation Expense

0.00000 Incremental Income Tax Factor (From Step 3)
\$0.00 Depreciation Expense on WIFA Loan Funded Plant (\$210,891 x 2.00%)
\$0.00 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Net Annual Income Tax Component of Surcharge

\$0.00 Annual Income Tax Component Related to the Principle (From Step 4)
\$0.00 Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)
\$0.00 Net Annual Income Tax Component of Surcharge Revenue

Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$15,724.06 Annual Interest and Principal Payments on the Loan (From Step 1)
0% Multiplied by: One-fifth of Annual Principal and Interest Payment
\$0.00 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$0.00 Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 6)
\$15,724.06 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
\$0.00 Plus: Annual Reserve Fund Deposit (From Step 7)
\$15,724.06 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Col A	Col B		Col C		Col D		Col E
Meter Size	NARUC Multiplier		Number of Customers		Number of Months in Year		Equivalent Bills Col B x C X D
5/8"x 3/4" Meter	1	x	203	x	12	=	2,436
3/4" Meter	1.5	x	20	x	12	=	360
1" Meter	2.5	x	0	x	12	=	-
1½" Meter	5	x	0	x	12	=	-
2" Meter	8	x	0	x	12	=	-
3" Meter	15	x	0	x	12	=	-
4" Meter	25	x	0	x	12	=	-
6" Meter	50	x	0	x	12	=	-
			<u>223</u>				<u>2,796</u>

Step 10 - Find the Monthly Surcharge for the 5/8-Inch Meter Size Customers

\$15,724.06 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8)
2,796 Divided by: Total Number of Equivalent Bills (From Step 9)
\$5.62 Monthly Surcharge for 1-Inch Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Col A	Col B		Col C		Col D
Meter Size	NARUC Multiplier		1-Inch Customers' Surcharge		Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x	\$5.62	=	\$5.62
3/4" Meter	1.5	x	\$5.62	=	\$8.44
1" Meter	2.5	x	\$5.62	=	\$14.06
1½" Meter	5	x	\$5.62	=	\$28.12
2" Meter	8	x	\$5.62	=	\$44.99
3" Meter	15	x	\$5.62	=	\$84.36
4" Meter	25	x	\$5.62	=	\$140.59
6" Meter	50	x	\$5.62	=	\$281.19

Step 12 - Recalculation of Annual Surcharge Revenue

Col A	Col B		Col C		Col D		Col E
Meter Size	Number of Customers		Number of Months in Year		Surcharge by Meter Size		Annual Surcharge Rev Col B x C X D
5/8"x 3/4" Meter	203	x	12	x	\$5.62	=	\$13,699.50
3/4" Meter	20	x	12	x	\$8.44	=	\$2,024.56
1" Meter	0	x	12	x	\$14.06	=	\$0.00
1½" Meter	0	x	12	x	\$28.12	=	\$0.00
2" Meter	0	x	12	x	\$44.99	=	\$0.00
3" Meter	0	x	12	x	\$84.36	=	\$0.00
4" Meter	0	x	0	x	\$140.59	=	\$0.00
6" Meter	0	x	0	x	\$281.19	=	\$0.00
	<u>223</u>				<u>\$607.37</u>		<u>\$15,724.06 (From Step 8)</u>

Line

No.									
1		RCAC Loan Amount Requested	\$108,000						
2		Down Payment:	\$0						
3		Amount Financed:	\$108,000						
4		Number of years:	10.0	Compounding Periods	12				
5		RCAC Interest & Fee Rate	8.000%						

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$1,310.34	\$108,000.00	\$720.00	\$590.34	\$107,409.66			
2	1,310.34	107,409.66	716.06	594.27	106,815.39			
3	1,310.34	106,815.39	712.10	598.24	106,217.15			
4	1,310.34	106,217.15	708.11	602.22	105,614.93			
5	1,310.34	105,614.93	704.10	606.24	105,008.69			
6	1,310.34	105,008.69	700.06	610.28	104,398.41			
7	1,310.34	104,398.41	695.99	614.35	103,784.06			
8	1,310.34	103,784.06	691.89	618.44	103,165.62			
9	1,310.34	103,165.62	687.77	622.57	102,543.05			
10	1,310.34	102,543.05	683.62	626.72	101,916.33			
11	1,310.34	101,916.33	679.44	630.90	101,285.44			
12	1,310.34	101,285.44	675.24	635.10	100,650.34	8,374.39	7,349.66	15,724.06

MEMORANDUM

TO: Darron Carlson
Public Utilities Analyst Manager

FROM: Michael S. Thompson, P.E.
Utilities Engineer

DATE: June 17, 2016

RE: IN THE MATTER OF THE MONTEZUMA RIMROCK WATER COMPANY, LLC REQUEST, PER ARIZONA REVISED STATUTE ("A.R.S.") 40-252, TO AMEND DECISION 74504 (DOCKET NOS. W-04254A-12-0204, W-04254A-12-0205, W-04254A-12-0206, W-04254A-12-0207, W-04254A-11-0323, W-04254A-08-0361, & W-04254A-08-0362)

I. Introduction

On March 22, 2016, Montezuma Rimrock Water Company, LLC ("Montezuma" or "Company") filed two (2) A.R.S. 40-252's with the Arizona Corporation Commission ("Commission") requesting that Decision No. 74504, dated May 30, 2014, be amended. In the A.R.S. 40-252's, Montezuma is requesting 1) that it be permitted to implement and begin collecting the surcharge for the 8,000 gallon hydro-pneumatic pressure tank approved in Decision No. 74504 (See Exhibit 1), and 2) that it be authorized to seek funding in the amount of \$108,000 from a private financial institution, such as the Rural Community Assistance Corporation ("RCAC"), with terms and prevailing interest rates (See Exhibits 2 & 3).

II. Background

Montezuma is a Class E public water company that provides service to approximately 225 metered connections. The water system is a groundwater based system servicing a community located approximately ten (10) miles northeast of Camp Verde, Yavapai County, Arizona. Ms. Patricia Olsen is the manager of Montezuma.

On May 31, 2012, Montezuma filed an application for approval of a rate increase and financing. On April 12, 2013, Montezuma amended its financing application.

On May 23, 2013, Staff Engineer, Mr. Marlin Scott, submitted an Engineering Report that included recommendations for Montezuma to 1) purchase and install an 8,000 gallon hydro-pneumatic pressure tank at a cost of \$18,541, and 2) purchase and install four (4) 20,000 gallon storage tanks at a cost of \$108,000.

Decision No. 74504, representing the dockets referenced above, was approved by the Commission on May 30, 2014. In its Ordering paragraph, the Commission authorized Montezuma 1) its request for financing in the form of a loan agreement in which Montezuma promised to pay Mr. Sergei Arias (Ms. Patricia Olsen's son) the sum of \$15,000 for the purchase of the 8,000 gallon hydro-pneumatic pressure tank, 2) Staff's estimated cost of \$3,541 for the installation of the hydro-

pneumatic pressure tank, and 3) to incur an 18 to 22 year amortizing loan in an amount of \$108,000 pursuant to a loan agreement with the Water Infrastructure Finance Authority ("WIFA"), at an interest rate not to exceed that available from WIFA, for the purpose of installing the storage tanks.

Regarding the purchase and installation of the hydro-pneumatic pressure tank, the Commission included a stipulation in its order "that before Montezuma may begin collecting any associated surcharge for the pressure tank, Staff shall verify that Montezuma has complied with Findings of Fact No. 21". Findings of Fact No. 21 states that Montezuma may not begin to collect any surcharge until: 1) Staff verifies that the tank is installed and operational, 2) the tank has received an Approval of Construction ("AOC") from the Arizona Department of Environmental Quality ("ADEQ"), 3) Staff has made its best efforts to verify the purchase price paid by Mr. Arias for the tank, and 4) Montezuma obtains Commission approval of proposed surcharge amounts for its various meter sizes.

With respect to Findings of Fact No. 21, item 3, Staff has determined that the hydro-pneumatic pressure tank was purchased from Mr. D. L. Baugh of Dynaw Equipment & Manufacturing, on June 6, 2011, by Mr. Arias for \$15,000 (See Exhibit 4 & 5).

Decision No. 74504 also included an order stating, "that because of the very serious nature of Montezuma's and owner's actions reflected in the record, the Commission directs the Legal Division to consult with the Attorney General's Office ("AG") regarding a referral for possible further action against Montezuma and its owner under Arizona law. On June 27, 2014, the Commissions Legal Division sent a letter to Mr. Tom Horne, Arizona Attorney General, referring the matter of Montezuma and Ms. Olsen's actions and conduct during the Commission proceedings for purposes of consultation regarding possible further action under Arizona law (See Exhibit 6). In response, WIFA placed Montezuma's loan application process on hold until the AG's office completed its review (See Exhibit 7). As of the date of this memorandum the AG's Office has not responded to the Legal Division letter.

III. Current Status

To date, neither the 8,000 gallon hydro-pneumatic pressure tank nor the four (4) 20,000 gallon storage tanks have been purchased and installed. Hence, the reason for Montezuma to submit the A.R.S. 40-252's.

Ms. Olsen contends that 1) the restrictions included in the Findings of Fact No. 21 of Decision No. 74504 hinder Montezuma from ever installing the 8,000 gallon hydro-pneumatic pressure tank as Montezuma has no funding capable to begin the process of purchasing and installing the tank, 2) no provisions were ever instituted for the engineering and AOC costs associated with the 8,000 gallon hydro-pneumatic pressure tank (Staff has estimated the engineering and AOC costs to be approximately \$6,000), and 3) Montezuma is unable to move forward with WIFA funding for the purchase and installation of the four (4) 20,000 gallon storage tanks.

When purchased, the 8,000 gallon hydro-pneumatic pressure tank and two (2) of the 20,000 gallon storage tanks are to be installed at Montezuma's Well Site No. 1. Well Site No. 1 has an

existing pressure tank (the one to be replaced), and three storage tanks (one (1) 10,000 gallon, and two (2) 5,000 gallon tanks). One (1) of the 5,000 gallon storage tanks is used as a backwash tank for the arsenic treatment facility, while the other 5,000 gallon storage tank is used in conjunction with the 10,000 gallon storage tank. The 10,000 gallon storage tank, that is to be replaced, is sitting where the 8,000 gallon pressure tank is to be installed. The 10,000 gallon storage tank can't be removed until the two (2) new 20,000 gallon storage tanks have been installed at the well site. The reasoning is based on available storage capacity to meet customer demand. In other words, if the 10,000 gallon storage tank is removed prior to installing the two 20,000 gallon storage tanks the 5,000 gallon storage tank would not be adequate to meet customer demand. Therefore, the two (2) new 20,000 gallon storage tanks have to be installed prior to the removal of the existing 5,000 gallon and 10,000 gallon storage tanks. When the new storage tanks have been installed, the existing two (2) tanks can be removed and the 8,000 gallon pressure tank can be installed.

The remaining two (2) 20,000 gallon storage tanks, when purchased, are to be installed at Well Site No. 2. The well located at Well Site No. 2 is inactive. After the two (2) storage tanks have been installed, existing booster pumps located at the well site would provide service to customers from the storage tanks.

Staff concludes that Montezuma's plan for installing the hydro-pneumatic pressure tank and four (4) storage tanks is appropriate and reasonable.

Staff has reviewed Montezuma's request and believes, from an engineering perspective, that it is reasonable to permit Montezuma to implement and begin collecting the surcharge for the purchase and installation of the 8,000 gallon hydro-pneumatic pressure tank. Staff further recommends that Montezuma, as a compliance item in this docket, file the AOC upon issuance from ADEQ.

IV. Conclusions

- 1) Montezuma contends that it has no funding capable to begin the process of purchasing and installing the 8,000 gallon hydro-pneumatic pressure tank.
- 2) Montezuma is requesting approval to implement and begin collecting the surcharge for the 8,000 gallon hydro-pneumatic pressure tank.
- 3) Staff has estimated the engineering and AOC costs associated with the 8,000 gallon hydro-pneumatic pressure tank to be approximately \$6,000.
- 4) Montezuma is unable to install the 8,000 gallon hydro-pneumatic pressure tank, at Well Site No. 1, until the two (2) 20,000 gallon storage tanks have been installed.
- 5) Montezuma is unable to obtain funding from WIFA, for the purchase and installation of the four (4) 20,000 gallon storage tanks, due to the pending outcome of the consultation of the AG's office with the Commission's Legal Division regarding the possible further action under Arizona law with Montezuma.

- 6) Montezuma is requesting authorization to seek funding for the purchase and installation of the four (4) 20,000 gallon storage tanks from a private financial institution such as RCAC.
- 7) When purchased, two (2) of the four (4) 20,000 gallon storage tanks will be installed at Well Site No. 2.
- 8) Montezuma's plan for installing the hydro-pneumatic pressure tank and four (4) storage tanks is appropriate and reasonable.
- 9) Staff has determined that the 8,000 gallon hydro-pneumatic pressure tank was purchased from Mr. D. L. Baugh of Dynaw Equipment & Manufacturing, on June 6, 2011, by Mr. Arias for \$15,000.

V. Recommendations

- 1) Staff has reviewed Montezuma's request and believes, from an engineering perspective, that it is reasonable to permit Montezuma to implement and begin collecting the surcharge for the purchase and installation of the 8,000 gallon hydro-pneumatic pressure tank.
- 2) Staff further recommends that Montezuma, as a compliance item in this docket, file the AOC upon issuance from ADEQ.



March 17, 2016

Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

RECEIVED
2016 MAR 22 A 10:30
AZ CORP COMMISSION
DOCKET CONTROL

Re: Docket No.: W-04254A-12-0204, W-04254A-12-0205, W-04254A-12-0206, W-04254A-12-0207, W-04254A-11-0323, W-04254A-08-0361, W-04254A-08-0362

Decision No.: 74504

Per ARS 40-252, Montezuma Rimrock Water Company, LLC (MRWC) requests an amendment to Decision No. 74504. Decision No. 74504, approved by the Arizona Corporation Commission authorizes MRWC "approval of financing in the form of a loan agreement in which Montezuma promised to pay Sergei Arias the sum of \$15,000 for the purchase of an 8,000 gallon hydro-pneumatic tank is hereby granted...." Findings of Fact 21 states:

We also approve calculation of the associated surcharge as proposed by Staff. However the company may not begin to collect any surcharge until (2) the tank has received an AOC from ADEQ. The Company shall file a letter in this Docket informing Staff and the Commission when the tank is installed and operational and has received an AOC from ADEQ. Staff shall then conduct a field inspection to verify that the tank is installed and operational and has received an AOC from ADEQ. The Company shall then file an application for approval of its proposed surcharge amounts for its various meter sizes.

These types of restrictions hinder MRWC from ever installing the hydro-pneumatic tank as the company has no funding capable of beginning the process. Unless MRWC receives monies for the tank, it cannot begin to consider installation of the tank. MRWC would also like to note that no provisions were ever instituted for the engineering and AOC costs required for the installation of the hydro-tank.

MRWC requests that Decision No. 74504 be amended so that the surcharge may be implemented in order to collect money to engage an engineer and apply for the ATC and AOC process with ADEQ which would provide MRWC the ability to move forward with the installation of the hydro-pneumatic tank.

Sincerely,

Patricia D. Olsen, Manager

Arizona Corporation Commission
DOCKETED
MAR 22 2016

EXHIBIT 1

ORIGINAL Montezuma Rimrock Water Com

3031 E. Beaver Creek Rd., Rimrock, AZ 86335

www.MontezumaWater.com

Phone: 928-592-9211

RECEIVED

2016 MAR 22 A 10:31

AZ CORP COMMISSION
DOCKET CONTROL

March 17, 2016


Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Re: Docket No.: W-04254A-12-0204, W-04254A-12-0205, W-04254A-12-0206, W-04254A-12-0207, W-04254A-11-0323, W-04254A-08-0361, W-04254A-08-0362

Decision No.: 74504

Per ARS 40-252, Montezuma Rimrock Water Company, LLC (MRWC) requests an amendment to Decision No. 74504. Decision No. 74504, approved by the Arizona Corporation Commission authorizes MRWC to "incur an 18- to 22-year amortizing loan in an amount not to exceed \$108,000 pursuant to a loan agreement with WIFA, at an interest rate not to exceed that available from WIFA, for the purpose of installing storage tanks;" MRWC requests that Decision No. 74504 be amended to allow MRWC to seek funding from a private financial institution such as RCAC with terms and prevailing interest rates of the financial institution. An amendment to the Decision will allow MRWC to purchase the much needed storage tanks. In comparison, RCAC will hold a 10 year fixed rate loan that is fully amortizing and as it is understood by MRWC, MRWC will not be obligated to encumber all assets of the company but rather only the storage tanks for purposes of the loan. MRWC has been unable to move forward with WIFA funding. Attached is a copy of the letter from RCAC to MRWC confirming the possibility of a loan program for storage tank purchase.

Sincerely,


Patricia D. Olsen, Manager

Arizona Corporation Commission

DOCKETED

MAR 22 2016


DOCKETED BY 

EXHIBIT 2



Darryl English
Loan Officer
PO Box 5203
Carefree, AZ 85377

December 15, 2015

Patricia Olsen
President
Montezuma Rimrock Water Company, LLC
3031 E Beaver Creek Rd.
Rimrock, AZ 86355

Dear Patricia,

This letter is meant to confirm that RCAC has a business loan program that may work for your loan request.

As I understand it the loan amount would be approximately \$130,000 for the purchase and installation of four water storage tanks. Our program is a 10 year fixed rate loan that is fully amortizing. The rate is dependent on underwriting and will be determined once an application and supporting documentation has been provided.

Please feel free to call with any questions.

Sincerely,


Darryl English

Dynaw Equipment & mfg.
P.O. Box 883
Mancos, Co. 81328

INVOICE NUMBER: 01201
DATE: JUNE 6, 2011

SOLD TO:
Sergei Arias
2126 S. Tombaugh Way
Flagstaff, Az. 86001

1 (1) 8,000 gallon water pressure tank	\$15,000.00
As is, Where is	

*paid in full
12/13/11*

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



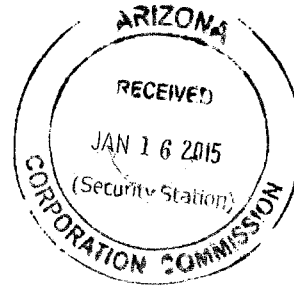
JODI JERICH
Executive Director

ARIZONA CORPORATION COMMISSION

October 7, 2014

CERTIFIED MAIL

Mr. L. D. Baugh
Dynaw Equipment & Manufacturing
Post Office Box 883
Mancos, Colorado. 81328



Dear Mr. Baugh:

Enclosed is a copy of the invoice, regarding an 8,000 gallon water pressure tank, that Mr. Del Smith and I discussed with you Friday morning, October 3, 2014. As indicated on the invoice, the water pressure tank was sold to Mr. Sergei Arias for \$15,000 which was paid in full to you.

Would you please, at your earliest convenience, check your records in order to provide the following information pertaining to the water pressure tank:

- 1) Manufacturer - *UNKNOWN*
- 2) Date Manufactured - *UNKNOWN*
- 3) Model Number - *UNKNOWN*
- 4) Verify the Sale Price *\$15,000.00*
- 5) Verify that the invoice is from Dynaw Equipment & Mfg. - *YES*
- 6) Certification of the Pressure Tank - *SOLD AS-IS WHERE'S NO CERTIFICATION*

Any information you can provide would be greatly appreciated.

Sincerely,

Michael S. Thompson, P. E., Water/Wastewater engineer
Arizona Corporation Commission
Utilities Division - Engineering
1200 W. Washington Street, Phoenix 85007-2927
Phone (602) 542-0763

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

WWW.AZCC.GOV

EXHIBIT 5

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



RECEIVED

Executive Director

ARIZONA CORPORATION COMMISSION

June 27, 2014

Arizona Corporation Commission

DOCKETED

JUN 27 2014

Mr. Tom Horne, Esq.
Arizona Attorney General
1275 West Washington Street
Phoenix, Arizona 85007

ORIGINAL

DOCKETED BY

Re: Arizona Corporation Commission Consolidated Docket Nos.: W-04254A-12-0204;
W-04254A-12-0205; W-04254A-12-0206; W-04254A-12-0207; W-04254A-11-0323;
W-04254A-08-0361; and W-04254A-08-0362.

Dear Mr. Horne,

On May 30, 2014, the Arizona Corporation Commission ("Commission") issued Decision No. 74504. In addition to setting new rates for the applicant utility, Montezuma Rimrock Water Company ("Montezuma" or "Company"), the Decision determined that facts surrounding the operation of the Company by its owner, Ms. Patricia Olsen, merit referral to the Attorney General for possible further action under Arizona law. Decision No. 74504 finds in relevant part that the facts of this case "indicate the Company and its owner knowingly filed what appear to be misleading information and documents with the Commission, apparently in an effort to avoid Commission jurisdiction." See Decision No. 74504 at 155, Finding of Fact 48. No requests for rehearing or reconsideration have been filed, and Decision No. 74504 is a final Commission decision.

Because of the very serious nature of the Company and owner's actions and conduct during the Commission proceedings reflected in the record, the Commission ordered referral of this matter to your office for purposes of consultation regarding possible further action under Arizona law. All documents that were filed and considered by the Commission in the determination of this matter, including Decision No. 74504, are available electronically on the Commission's edocket page at <http://edocket.azcc.gov/edocket/>. For your convenience, a copy of Decision No. 74504 is enclosed.

Mr. Tom Horne
June 27, 2014
Page 2

If you have any questions or would like to discuss this referral further, please feel free to contact me at (602) 542-3402.

Sincerely,



Janice Alward
Chief Counsel
Arizona Corporation Commission

Original and 13 copies of the foregoing w/o enclosure
filed this 27th day of June, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing w/o enclosure mailed
this 27th day of June, 2014:

Parties to the service list in Docket Nos.: W-04254A-12-0204; W-04254A-12-0205;
W-04254A-12-0206; W-04254A-12-0207; W-04254A-11-0323; W-04254A-08-0361;
and W-04254A-08-0362.

Todd C. Wiley
FENNEMORE CRAIG
2394 East Camelback Road, Suite 600
Phoenix, Arizona 85016-3429
Attorney for Montezuma Rimrock Water Co.

Patricia Olsen
MONTEZUMA RIMROCK
WATER CO., LLC
P.O. Box 10
Rimrock, Arizona 86335

John E. Dougherty, III
P.O. Box 501
Rimrock, Arizona 86635



Docket No. W-04254A-12-0204 ET AL.

JANICE K. BREWER
Governor

WIFA

SAT
EX

Water Infrastructure Finance Authority of Arizona

ORIGINAL

August 8, 2014

Patricia Olsen
Montezuma Rimrock Water Company, LLC
3031 E. Beaver Creek Rd.
Rimrock, AZ 86335

Arizona Corporation Commission

DOCKETED

AUG 19 2014

DOCKETED BY

Dear Ms. Olsen,

It has come to my attention that the Arizona Corporation Commission has ordered a referral of Montezuma Rimrock Water Company and its owner to the Attorney General's Office regarding possible action under Arizona law. Montezuma Rimrock Water Company's application process will be on hold until the Attorney General's office completes its review.

Sincerely,



Sandra L. Sutton
Executive Director

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W-04254A-12-0205
W-04254A-12-0206
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W-04254A-11-0323
W-04254A-08-0361
W-04254A-08-0362

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EXHIBIT 7